



**GOVAN MBEKI MUNICIPALITY  
(REGISTRATION NUMBER MP307)  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## General Information

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### Legal form of entity

Municipality

### Nature of business and principal activities

Govan Mbeki municipality is a local municipality performing the functions as set out in the Constitution (Act No. 108 of 1998)

### Mayoral Committee

Executive Mayor

Ngxonono YT

Chief Whip of Council

Mtshali PD

Speaker of Council

Zuma NG

Chairperson of MPAC

Gwiji CV

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## General Information

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### Councillors

Badenhorst H J  
Botha C  
Chamberlain M  
De Vries G R  
Denny T M (resigned 31.01.2020)  
Dube T H  
Fourie M E(resigned 31.07.2019)  
Hlolweni S  
Klaas N P  
Lukhele I  
Mabizela T M  
Mahlangu B D  
Mahlangu B D  
Mahlangu B S  
Mahlangu E  
Mahlangu N P  
Malaza N G  
Maseko T M  
Masina N  
Masuku P I P  
Mathebula S B  
Masinga MM(appointed 10.07.2019)  
Mazibuko K D  
Mbokazi A V  
Mbonani L M  
Mkhaliphi S  
Mkwebane Z A  
Mnisi T R  
Mofokeng T S  
Mokoena B D  
Moloto B D  
Morajane T A  
Motloun M E  
Mtsweni M J  
Mtsweni T P  
Ndoda N M  
Ndwanyaza P N  
Nel Buitendag A D  
Njinga S C  
Nkabinde E R  
Nkabinde J B  
Nhlapo M D  
Ntuli S R  
Sebolela J D  
Selepe AM(appointed 10.07.2019)  
Shai KJ Mr  
Sibanyoni S I  
Sithole L E  
Swart E P  
Thabethe I M  
Van Huyssteen N C  
VanRooyen E J  
Vilakazi E A  
Zulu T S

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## General Information

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Members of the Mayoral Committee

Makhanye S A  
Mahlangu B S  
Ndaba B B  
Zulu N N  
Nhlapo M D  
Nkosi N E  
Makola M B

Capacity and grading of local authority

B4  
High

Accounting Officer

EK Tshabalala

Chief Financial Officer (CFO)

BB Sithole

Registered office

Horwood Street  
Secunda  
2302

Business address

Horwood Street  
Secunda  
2302

Postal address

Private Bag X1017  
Secunda  
2302

Bankers

Standard Bank

Auditors

Auditor-General of South Africa

Attorneys

Cronje De Waal & Skhosana attorney  
TMN Kgomo Attorney's  
Mthimunye' Attorneys  
Sipeto Mduba Attorneys  
Tau Phalane Inc

Demarcation code

MP307

Legislation governing the municipality's operations

Local Government: Municipal Finance Management Act (Act No. 56 of 2003)  
Local Government: Municipal Systems Act (Act No. 32 of 2000)  
Local Government: Municipal Structures Act (Act No. 117 of 1998)  
Constitution of the Republic of South Africa (Act No. 108 of 1996)  
Municipal Property Rates Act (Act No. 6 2004)  
Division of Revenue Act (Act No. 1 of 2007)

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
mSCOA	Municipal Standard Chart of Accounts

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Responsibilities and Approval

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The accounting officers are responsible for the preparation of the annual financial statements in terms of section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003). The accounting officers is required by the Municipal Finance Management Act (Act No. 56 of 2003) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any Interpretations, Guidelines and Directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer have reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on funding and continued internally generated funding for operations, in this regard the Financial Recovery Plan has been developed and approved by council. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

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**Tshabalala EK**  
**Acting Municipal Manager**

**Secunda**

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Report

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The accounting officers submit their report for the year ended 30 June 2020.

### 1. Review of activities

#### Main business and operations

Net deficit of the municipality was R 595,845,147 (2019: deficit R 828,293,433).

### 2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated deficit of R 335,385,932.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The Provincial Executive of the Mpumalanga Provincial Government intervened in the municipality in terms of section 139(1)(b) of the Constitution and Section 139(5) of the Constitution read with Section 139 of the Municipal Finance Management Act (MFMA) (Act No. 56 of 2003).

As part of the intervention by the Provincial Executive, the Municipal Financial Recovery Services unit within the Provincial Treasury has been requested to assist with the development of a financial recovery plan for Govan Mbeki Local Municipality.

The primary responsibility to avoid, identify and resolve financial problems rests with the Govan Mbeki Local Municipal Council and the Plan must be monitored by Council, the Executive Mayor and the Municipal Manager to ensure successful implementation, and places significant implementation responsibility on the Municipal Manager, Chief Financial Officer and other senior managers.

### 3. Subsequent events

Mr SF Mndebele (Municipal Manager) is placed on precautionary suspension from 3 September 2020 as resolved by council resolution number CA009/09/2020. Mrs EK Tshabalala the current Director Community Services has been appointed as the Acting Municipal Manager until the matter is resolved.

Mr BB Sithole (Chief Financial Officer) was placed on suspension as resolved by council resolution number CA011/10/2020, Mrs VB Nkhata seconded from Gert District Municipality from 20 October 2020 is currently Acting Chief Financial Officer.

### 4. Accounting Officers' interest in contracts

The accounting officer does not have any direct or indirect interest's in contracts.

### 5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Tshabalala EK (Acting Municipal Manager)	South African	Appointed (3 September 2020)
Mndebele SF(Municipal Manager)	South African	Suspended (3 September 2020)

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Report

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### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

#### Audit and risk committee

In the year under review, the audit committee was established, and the audit committee members appointed are as follows:

Name	Position	Date Appointed
Ms Sophie Molokoane Machika	Chairperson	April 2018
Ms Princess Mangoma	Member	December 2016
Mr Siyakhula Simelane	Member	December 2019
Mr Thokozani Tshabalala	Member	December 2019
Ms Sijabulile Makhathini	Member	December 2019

#### Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

The annual financial statements which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020.

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**Tshabalala EK**  
**Acting Municipal Manager**



# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
Current Assets			
Inventories	9	18,287,087	14,610,380
Receivables from exchange transactions	11	209,419,367	145,030,423
Receivables from non-exchange transactions	10&11	49,203,966	59,653,706
VAT receivable	12	30,275,902	-
Long term receivables	8	20,500,674	12,946,434
Other receivables		25,752,252	13,368,391
Cash and cash equivalents	13	178,568,610	97,241,781
		<b>532,007,858</b>	<b>342,851,115</b>
Non-Current Assets			
Investment property	2	1,072,398,583	899,217,789
Property, plant and equipment	3	1,786,216,954	1,784,575,052
Intangible assets	4	1,121,804	1,202,755
Heritage assets	5	5,430,550	5,430,550
Other financial assets	6	12,908,499	12,534,852
Employee benefit asset	7	5,633,869	-
Prepayments		-	9,238,076
Long term receivables	8	12,117,463	4,572,327
		<b>2,895,827,722</b>	<b>2,716,771,401</b>
<b>Total Assets</b>		<b>3,427,835,580</b>	<b>3,059,622,516</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	16	1,170,125	1,511,825
Finance lease obligation	14	398,252	435,276
Payables from exchange transactions	19	2,654,349,529	1,961,376,368
Taxes and transfers payable (non-exchange)	20	15,895,141	8,605,048
VAT payable	12	-	11,699,308
Consumer deposits	21	26,657,115	25,488,642
Employee benefit obligation	7	3,427,701	1,682,853
Unspent conditional grants and receipts	15	36,222,466	22,537,360
Provisions	17	100,046,546	3,520,242
Long service awards	18	3,140,924	2,766,767
		<b>2,841,307,799</b>	<b>2,039,623,689</b>
Non-Current Liabilities			
Other financial liabilities	16	-	1,212,732
Finance lease obligation	14	-	398,252
Employee benefit obligation	7	42,727,995	56,405,538
Provisions	17	181,138,490	105,465,568
Long service awards	18	27,275,364	25,183,406
		<b>251,141,849</b>	<b>188,665,496</b>
<b>Total Liabilities</b>		<b>3,092,449,648</b>	<b>2,228,289,185</b>
<b>Net Assets</b>		<b>335,385,932</b>	<b>831,333,331</b>
Accumulated surplus		335,385,932	831,333,330

\* See Note

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	1,203,950,186	1,101,162,939
Rental of facilities and equipment	26	5,675,701	4,355,951
Interest received - trading		85,027,037	97,390,114
Fees earned	48	3,610,865	4,088,368
Incidental income	23	1,379,263	5,618,557
Interest received - investment	24	8,708,460	5,891,363
Fair value adjustments	2	189,435,825	-
Actuarial gains	7	16,057,260	-
Inventories reversal		46,189	-
<b>Total revenue from exchange transactions</b>		<b>1,513,890,786</b>	<b>1,218,507,292</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	323,667,376	288,724,500
<b>Transfer revenue</b>			
Government grants and subsidies	28	404,764,945	383,610,526
Fines, penalties and forfeits	49	2,947,635	10,090,129
Interest - property rates	50	8,482,483	8,091,643
Insurance claims	51	1,275,209	4,203,324
<b>Total revenue from non-exchange transactions</b>		<b>741,137,648</b>	<b>694,720,122</b>
<b>Total revenue</b>		<b>2,255,028,434</b>	<b>1,913,227,414</b>
<b>Expenditure</b>			
Employee related costs	29	(518,432,919)	(484,547,511)
Remuneration of councillors	30	(25,302,987)	(23,758,651)
Bulk purchases	35	(1,030,875,227)	(915,202,209)
Debt impairment	34	(481,658,758)	(632,637,584)
Contracted services	36	(120,384,071)	(119,971,757)
Depreciation and amortisation	31	(155,216,439)	(151,884,382)
Impairments assets	32	(42,095,738)	(16,493,177)
Finance costs	33	(229,781,405)	(174,842,131)
Collection costs		(181,542)	(2,037,448)
General expenses	37	(142,786,930)	(172,337,506)
Actuarial losses		-	(685,473)
Fair value adjustments		-	(3,865,712)
Loss on disposal of assets and liabilities		(72,110,853)	(46,746,662)
Transfers and subsidies	27	(32,046,712)	(34,416,662)
<b>Total expenditure</b>		<b>(2,850,873,581)</b>	<b>(2,779,426,865)</b>
<b>Deficit for the year</b>		<b>(604,327,630)</b>	<b>(874,291,094)</b>

\* See Note

# Govan Mbeki Municipality

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2018</b>	<b>1,697,532,781</b>	<b>1,697,532,781</b>
Changes in net assets		
Surplus for the year	(866,199,451)	(866,199,451)
Total changes	(866,199,451)	(866,199,451)
Opening balance as previously reported	831,333,340	831,333,340
Adjustments		
Correction of errors	99,897,739	99,897,739
<b>Restated* Balance at 01 July 2019 as restated*</b>	<b>931,231,079</b>	<b>931,231,079</b>
Changes in net assets		
Surplus for the year	(595,845,147)	(595,845,147)
Total changes	(595,845,147)	(595,845,147)
<b>Balance at 30 June 2020</b>	<b>335,385,932</b>	<b>335,385,932</b>
Note(s)		

\* See Note

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		934,928,000	837,731,151
Grants		409,291,000	364,529,893
Interest income		110,329,060	111,373,120
Other receipts		324,275,000	61,099,534
		<u>1,778,823,060</u>	<u>1,374,733,698</u>
<b>Payments</b>			
Employee costs		(538,441,000)	(507,179,269)
Suppliers		(853,070,627)	(419,236,929)
Finance costs		(229,716,041)	(164,450,749)
		<u>(1,621,227,668)</u>	<u>(1,090,866,947)</u>
<b>Net cash flows from operating activities</b>		<b><u>157,595,392</u></b>	<b><u>283,866,751</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(73,598,903)	(98,168,432)
Proceeds from sale of investment property	2	-	(554,002)
Purchase of other intangible assets	4	(328,508)	-
Purchases of heritage assets	5	-	(5,213)
Movement in financial assets		-	(832,427)
Prepayments		-	(6,956,522)
		<u>(73,927,411)</u>	<u>(106,516,596)</u>
<b>Net cash flows from investing activities</b>		<b><u>(73,927,411)</u></b>	<b><u>(106,516,596)</u></b>
<b>Cash flows from financing activities</b>			
Movement in other financial liability		(1,840,511)	(1,840,511)
Finance lease payments		(500,641)	352,724
		<u>(2,341,152)</u>	<u>(1,487,787)</u>
<b>Net cash flows from financing activities</b>		<b><u>(2,341,152)</u></b>	<b><u>(1,487,787)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>81,326,829</b>	<b>175,862,368</b>
Cash and cash equivalents at the beginning of the year		97,241,781	(78,620,587)
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>178,568,610</u></b>	<b><u>97,241,781</u></b>

\* See Note

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	1,207,299,158	148,853,533	1,356,152,691	1,203,950,186	(152,202,505)	
Rental of facilities and equipment	4,507,358	-	4,507,358	5,675,701	1,168,343	
Interest received - trading	98,687,602	-	98,687,602	85,027,037	(13,660,565)	
Fees earned	5,641,978	-	5,641,978	3,610,865	(2,031,113)	
Other income	1,238,055	-	1,238,055	1,379,263	141,208	
Interest received - investment	5,324,600	-	5,324,600	8,708,460	3,383,860	

<b>Total revenue from exchange transactions</b>	<b>1,322,698,751</b>	<b>148,853,533</b>	<b>1,471,552,284</b>	<b>1,308,351,512</b>	<b>(163,200,772)</b>	
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##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	311,419,665	91,630,129	403,049,794	323,667,376	(79,382,418)	
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##### Transfer revenue

Government grants and subsidies	419,176,000	-	419,176,000	404,764,945	(14,411,055)	
Fines, penalties and forfeits	32,975,937	-	32,975,937	2,947,635	(30,028,302)	
Insurance income	611,967	-	611,967	1,275,209	663,242	

<b>Total revenue from non-exchange transactions</b>	<b>764,183,569</b>	<b>91,630,129</b>	<b>855,813,698</b>	<b>732,655,165</b>	<b>(123,158,533)</b>	
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<b>Total revenue</b>	<b>2,086,882,320</b>	<b>240,483,662</b>	<b>2,327,365,982</b>	<b>2,041,006,677</b>	<b>(286,359,305)</b>	
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#### Expenditure

Employee costs	(591,940,619)	-	(591,940,619)	(518,432,919)	73,507,700	
Remuneration of councillors	(25,947,377)	-	(25,947,377)	(25,302,987)	644,390	
Depreciation and amortisation	(141,920,730)	-	(141,920,730)	(155,216,439)	(13,295,709)	
Impairment loss/ Reversal of impairments	-	-	-	(42,095,738)	(42,095,738)	

Finance costs	(80,965,887)	-	(80,965,887)	(229,781,405)	(148,815,518)	
Debt impairment	(233,922,900)	48,241,600	(185,681,300)	(481,658,758)	(295,977,458)	
Contracted services	(914,662,987)	108,000,000	(806,662,987)	(1,030,875,227)	(224,212,240)	
Contracted services	(271,691,586)	8,000,000	(263,691,586)	(120,384,071)	143,307,515	
Transfers and subsidies	(39,583,045)	-	(39,583,045)	(32,046,712)	7,536,333	
General expenses	(115,015,167)	-	(115,015,167)	(142,968,472)	(27,953,305)	

<b>Total expenditure</b>	<b>(2,415,650,298)</b>	<b>164,241,600</b>	<b>(2,251,408,698)</b>	<b>(2,778,762,728)</b>	<b>(527,354,030)</b>	
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<b>Operating deficit</b>	<b>(328,767,978)</b>	<b>404,725,262</b>	<b>75,957,284</b>	<b>(737,756,051)</b>	<b>(813,713,335)</b>	
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Gain/(Loss) on disposal of assets and liabilities	11,037,483	-	11,037,483	(72,110,853)	(83,148,336)	
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Fair value adjustments	-	-	-	189,435,825	189,435,825	
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Actuarial gains/losses	-	-	-	16,057,260	16,057,260	
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Inventories losses/write-downs	-	-	-	46,189	46,189	
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	<b>11,037,483</b>	<b>-</b>	<b>11,037,483</b>	<b>133,428,421</b>	<b>122,390,938</b>	
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<b>Deficit before taxation</b>	<b>(317,730,495)</b>	<b>404,725,262</b>	<b>86,994,767</b>	<b>(604,327,630)</b>	<b>(691,322,397)</b>	
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## Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(317,730,495)</b>	<b>404,725,262</b>	<b>86,994,767</b>	<b>(604,327,630)</b>	<b>(691,322,397)</b>	

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	10,602,757	-	<b>10,602,757</b>	18,287,087	<b>7,684,330</b>	
Receivables from non-exchange transactions	152,451,017	-	<b>152,451,017</b>	49,203,966	<b>(103,247,051)</b>	
VAT receivable	-	-	-	141,864,204	<b>141,864,204</b>	
Consumer debtors	211,798,754	24,048,400	<b>235,847,154</b>	-	<b>(235,847,154)</b>	
Call investment deposit	4,343,702	-	<b>4,343,702</b>	-	<b>(4,343,702)</b>	
Long term receivables	91,224,751	-	<b>91,224,751</b>	(28,005,662)	<b>(119,230,413)</b>	
Other receivables	-	-	-	25,752,252	<b>25,752,252</b>	
Cash and cash equivalents	-	189,541,268	<b>189,541,268</b>	178,568,610	<b>(10,972,658)</b>	
	<b>470,420,981</b>	<b>213,589,668</b>	<b>684,010,649</b>	<b>385,670,457</b>	<b>(298,340,192)</b>	

##### Non-Current Assets

Investment property	994,443,284	-	<b>994,443,284</b>	1,072,398,583	<b>77,955,299</b>	
Property, plant and equipment	2,097,469,335	-	<b>2,097,469,335</b>	1,786,216,954	<b>(311,252,381)</b>	
Intangible assets	1,972,413	-	<b>1,972,413</b>	1,121,804	<b>(850,609)</b>	
Heritage assets	-	-	-	5,430,550	<b>5,430,550</b>	
Other financial assets	12,458,863	-	<b>12,458,863</b>	12,908,499	<b>449,636</b>	
Employee benefit asset	-	-	-	5,633,869	<b>5,633,869</b>	
Long term receivables	-	-	-	38,939,338	<b>38,939,338</b>	
	<b>3,106,343,895</b>	-	<b>3,106,343,895</b>	<b>2,922,649,597</b>	<b>(183,694,298)</b>	

#### Total Assets

<b>3,576,764,876</b>	<b>213,589,668</b>	<b>3,790,354,544</b>	<b>3,308,320,054</b>	<b>(482,034,490)</b>	
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#### Liabilities

##### Current Liabilities

Other financial liabilities	2,129,222	-	<b>2,129,222</b>	1,170,125	<b>(959,097)</b>	
Payables from exchange transactions	1,072,830,262	-	<b>1,072,830,262</b>	2,654,349,521	<b>1,581,519,259</b>	
Taxes and transfers payable (non-exchange)	-	-	-	15,895,141	<b>15,895,141</b>	
VAT payable	-	-	-	111,588,302	<b>111,588,302</b>	
Consumer deposits	24,631,549	(24,631,549)	-	26,657,115	<b>26,657,115</b>	
Employee benefit obligation	-	-	-	3,427,701	<b>3,427,701</b>	
Unspent conditional grants and receipts	-	-	-	36,222,466	<b>36,222,466</b>	
Provisions	7,073,109	-	<b>7,073,109</b>	100,046,546	<b>92,973,437</b>	
Long service awards	-	-	-	3,140,924	<b>3,140,924</b>	
Bank overdraft	598,793,304	(598,793,304)	-	-	-	
	<b>1,705,457,446</b>	<b>(623,424,853)</b>	<b>1,082,032,593</b>	<b>2,952,497,841</b>	<b>1,870,465,248</b>	

##### Non-Current Liabilities

Finance lease obligation	-	-	-	398,252	<b>398,252</b>	
Employee benefit obligation	-	-	-	48,361,864	<b>48,361,864</b>	
Provisions	171,467,247	-	<b>171,467,247</b>	181,138,490	<b>9,671,243</b>	
Long service awards	-	-	-	27,275,364	<b>27,275,364</b>	

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	<b>171,467,247</b>	<b>-</b>	<b>171,467,247</b>	<b>257,173,970</b>	<b>85,706,723</b>	
<b>Total Liabilities</b>	<b>1,876,924,693</b>	<b>(623,424,853)</b>	<b>1,253,499,840</b>	<b>3,209,671,811</b>	<b>1,956,171,971</b>	
<b>Net Assets</b>	<b>1,699,840,183</b>	<b>837,014,521</b>	<b>2,536,854,704</b>	<b>98,648,243</b>	<b>(2,438,206,461)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,699,840,183	837,014,521	<b>2,536,854,704</b>	98,648,243	<b>(2,438,206,461)</b>	



# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Service charges	1,028,124,782	556,484,914	<b>1,584,609,696</b>	-	<b>(1,584,609,696)</b>
Grants - operational	314,373,000	-	<b>314,373,000</b>	-	<b>(314,373,000)</b>
Grants - capital	88,803,000	-	<b>88,803,000</b>	-	<b>(88,803,000)</b>
Interest received	79,339,720	16,507,169	<b>95,846,889</b>	-	<b>(95,846,889)</b>
Other receipts	12,313,473	-	<b>12,313,473</b>	-	<b>(12,313,473)</b>
	<b>1,522,953,975</b>	<b>572,992,083</b>	<b>2,095,946,058</b>	-	<b>(2,095,946,058)</b>

##### Payments

Suppliers and Employee costs	(2,101,289,724)	217,066,101	<b>(1,884,223,623)</b>	-	<b>1,884,223,623</b>
Finance costs	(2,946,655)	-	<b>(2,946,655)</b>	-	<b>2,946,655</b>
	<b>(2,104,236,379)</b>	<b>217,066,101</b>	<b>(1,887,170,278)</b>	-	<b>1,887,170,278</b>

<b>Net cash flows from operating activities</b>	<b>(581,282,404)</b>	<b>790,058,184</b>	<b>208,775,780</b>	-	<b>(208,775,780)</b>
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#### Cash flows from investing activities

Purchase of property, plant and equipment	(123,248,565)	-	<b>(123,248,565)</b>	-	<b>123,248,565</b>
Proceeds from sale of property, plant and equipment	16,726,238	-	<b>16,726,238</b>	-	<b>(16,726,238)</b>
<b>Net cash flows from investing activities</b>	<b>(106,522,327)</b>	-	<b>(106,522,327)</b>	-	<b>106,522,327</b>

#### Cash flows from financing activities

Repayment of financial liabilities	(1,723,611)	-	<b>(1,723,611)</b>	-	<b>1,723,611</b>
Consumer deposits	120,000	-	<b>120,000</b>	-	<b>(120,000)</b>
<b>Net cash flows from financing activities</b>	<b>(1,603,611)</b>	-	<b>(1,603,611)</b>	-	<b>1,603,611</b>

Net increase/(decrease) in cash and cash equivalents	(689,408,342)	790,058,184	<b>100,649,842</b>	-	<b>(100,649,842)</b>
Cash and cash equivalents at the beginning of the year	88,891,427	-	<b>88,891,427</b>	-	<b>(88,891,427)</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>(600,516,915)</b>	<b>790,058,184</b>	<b>189,541,269</b>	-	<b>(189,541,269)</b>

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2020</b>											
<b>Financial performance</b>											
Property rates	311,419,665	91,630,129	403,049,794	-		403,049,794	323,667,376		(79,382,418)	80 %	104 %
Service charges	1,208,774,113	148,853,533	1,357,627,646	-		1,357,627,646	1,203,950,186		(153,677,460)	89 %	100 %
Investment revenue	5,324,600	-	5,324,600	-		5,324,600	8,708,460		3,383,860	164 %	164 %
Transfers recognised - operational	314,373,000	-	314,373,000	-		314,373,000	313,692,749		(680,251)	100 %	100 %
Other own revenue	161,034,366	-	161,034,366	-		161,034,366	324,345,752		163,311,386	201 %	201 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>2,000,925,744</b>	<b>240,483,662</b>	<b>2,241,409,406</b>	<b>-</b>		<b>2,241,409,406</b>	<b>2,174,364,523</b>		<b>(67,044,883)</b>	<b>97 %</b>	<b>109 %</b>
Employee costs	(591,940,619)	-	(591,940,619)	-	-	(591,940,619)	(518,432,919)	-	73,507,700	88 %	88 %
Remuneration of councillors	(25,947,377)	-	(25,947,377)	-	-	(25,947,377)	(25,302,987)	-	644,390	98 %	98 %
Debt impairment	(233,922,900)	48,241,600	(185,681,300)			(185,681,300)	(481,658,758)	-	(295,977,458)	259 %	206 %
Depreciation and asset impairment	(141,920,730)	-	(141,920,730)			(141,920,730)	(197,312,177)	-	(55,391,447)	139 %	139 %
Finance charges	(80,965,887)	-	(80,965,887)	-	-	(80,965,887)	(229,781,405)	-	(148,815,518)	284 %	284 %
Materials and bulk purchases	(914,662,987)	108,000,000	(806,662,987)	-	-	(806,662,987)	(1,030,875,227)	-	(224,212,240)	128 %	113 %
Transfers and grants	(39,583,045)	-	(39,583,045)	-	-	(39,583,045)	(32,046,712)	-	7,536,333	81 %	81 %
Other expenditure	(386,706,753)	8,000,000	(378,706,753)	-	-	(378,706,753)	(345,871,681)	-	32,835,072	91 %	89 %
<b>Total expenditure</b>	<b>(2,415,650,298)</b>	<b>164,241,600</b>	<b>(2,251,408,698)</b>	<b>-</b>	<b>-</b>	<b>(2,251,408,698)</b>	<b>(2,861,281,866)</b>	<b>-</b>	<b>(609,873,168)</b>	<b>127 %</b>	<b>118 %</b>
<b>Surplus/(Deficit)</b>	<b>(414,724,554)</b>	<b>404,725,262</b>	<b>(9,999,292)</b>	<b>-</b>		<b>(9,999,292)</b>	<b>(686,917,343)</b>		<b>(676,918,051)</b>	<b>6,870 %</b>	<b>166 %</b>

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	104,803,000	-	104,803,000	-		104,803,000	91,072,196		(13,730,804)	87 %	87 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(309,921,554)</b>	<b>404,725,262</b>	<b>94,803,708</b>	<b>-</b>		<b>94,803,708</b>	<b>(595,845,147)</b>		<b>(690,648,855)</b>	<b>(629)%</b>	<b>192 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>(309,921,554)</b>	<b>404,725,262</b>	<b>94,803,708</b>	<b>-</b>		<b>94,803,708</b>	<b>(595,845,147)</b>		<b>(690,648,855)</b>	<b>(629)%</b>	<b>192 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	123,248,565	-	123,248,565	-		123,248,565	324,716,464		201,467,899	263 %	263 %
<b>Cash flows</b>											
Net cash from (used) operating	(581,282,404)	790,058,183	208,775,779	-		208,775,779	157,595,392		(51,180,387)	75 %	(27)%
Net cash from (used) investing	(106,522,327)	-	(106,522,327)	-		(106,522,327)	(73,927,411)		32,594,916	69 %	69 %
Net cash from (used) financing	(1,603,616)	-	(1,603,616)	-		(1,603,616)	(2,341,152)		(737,536)	146 %	146 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(689,408,347)</b>	<b>790,058,183</b>	<b>100,649,836</b>	<b>-</b>		<b>100,649,836</b>	<b>81,326,829</b>		<b>(19,323,007)</b>	<b>81 %</b>	<b>(12)%</b>
Cash and cash equivalents at the beginning of the year	88,891,427	-	88,891,427	-		88,891,427	97,241,781		8,350,354	109 %	109 %
<b>Cash and cash equivalents at year end</b>	<b>(600,516,920)</b>	<b>790,058,183</b>	<b>189,541,263</b>	<b>-</b>		<b>189,541,263</b>	<b>178,568,610</b>		<b>10,972,653</b>	<b>94 %</b>	<b>(30)%</b>

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rands. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is first for individually significant receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment and accounts handed over to debt collectors and/or power of attorney, a formal arrangement is made on arrear debt.

##### Allowance for slow moving, damaged and obsolete stock

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided.

Management has made estimates of the service potential expected to be realised from distribution or use.

The write down is included in surplus or deficit.

##### Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 31 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post-retirement benefits

The present value of the post-retirement and long-term obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

#### Allowance for debt impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.3 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value of investment property reflecting market conditions at the valuation roll period of the municipality and annually updated with amendments of supplementary valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average/range of useful life
Buildings	Straight-line	30 years
Community	Straight-line	15-30 years
Infrastructure	Straight-line	10-30 years
Land	Straight-line	Indefinite
Landfill site	Straight-line	24 years
Other property, plant and equipment	Straight line	3-15 years

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Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on Impairment of cash-generating assets and/or Impairment of non-cash-generating assets.

### 1.6 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software and other intangible assets as intangible assets.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value on the date of acquisition.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimate change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Amortisation is provided to write down the intangible assets, on a straight-line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit

The useful lives of intangible assets have been assessed as follows:

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Item	Depreciation method	Average/range of useful life
Computer software	Straight-line	5 years

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.



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### 1.6 Intangible assets (continued)

The gain or loss arising from the disposal of an intangible assets is determined as the difference between the net disposal proceeds, if any, and carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Heritage assets that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

Subsequent to initial measurement, classes of heritage assets are carried at cost less any accumulated impairment losses.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

### 1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

Recoverable amount of an assets or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

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### 1.8 Impairment of cash-generating assets (continued)

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of non-cash-generating assets.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest of the the bond rate and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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## Accounting Policies

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### 1.8 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.8 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.9 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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## Accounting Policies

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### 1.9 Impairment of non-cash-generating assets (continued)

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### 1.9 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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## Accounting Policies

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### 1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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### 1.10 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Value Added Tax	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other Financial Assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Trade and other payables from non-exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations



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### 1.10 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

#### Discounting of short-term receivables and payables

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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### 1.10 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;

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### **Statutory receivables (continued)**

- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

### **Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

### **Subsequent measurement**

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

### **Accrued interest**

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

### **Other charges**

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

### **Impairment losses**

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the debtor will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the municipality discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

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### Statutory receivables (continued)

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts is recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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### 1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value or current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Water Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the customers or to use it internally, or where the municipality has incurred purification costs on the water obtained from natural resources (rain, rivers, springs, boreholes etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year end.

#### Other arrangements

Redundant and slow moving inventories are identified and written down from cost to net realisable value with regards to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write down on inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation in the period in which the reversal occurs.

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### 1.13 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to the amount as determined by council for the applicable financial year. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

### 1.14 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the Value-added Tax Act (Act No. 89 of 1991).

### 1.15 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

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### 1.15 Employee benefits (continued)

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



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## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligation.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

### 1.16 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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### 1.16 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on Impairment of assets as described in accounting policy 1.8 and 1.9

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.17 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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### 1.18 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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### 1.19 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Insurance claims

IFines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an assets

The insurance claims are measured at the amount due to the municipality from the insurance company.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# Govan Mbeki Municipality

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### 1.19 Revenue from non-exchange transactions (continued)

#### Grants

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unconditional grants and receipts are recognised upon receipt.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

The municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings; and
- weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of assets and Inventories as per accounting policy number 1.9, 1.12 and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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### 1.21 Borrowing costs (continued)

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 43 - Unauthorised expenditure.

### 1.23 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 45 - Fruitless and wasteful expenditure.

### 1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality's supply chain management policy.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 46 - Irregular expenditure.

### 1.25 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

# Govan Mbeki Municipality

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## Accounting Policies

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### 1.25 Commitments (continued)

Disclosures are made in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases. Refer to note 40 - Commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.26 Budget information

The approved budget is prepared on an accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that municipality's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances. Refer to note 42 - Related parties.

### 1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.



# **Govan Mbeki Municipality**

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## **Accounting Policies**

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### **1.29 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note - Comparative figures.

# Govan Mbeki Municipality

(Registration number MP307)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 2. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,072,398,583	-	1,072,398,583	899,217,789	-	899,217,789

#### Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	899,217,789	(16,755,017)	189,935,811	1,072,398,583

#### Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	947,188,842	(44,293,500)	(3,677,553)	899,217,789

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was Saturday, 01 July 2017. Revaluations were performed by an independent valuer from Lutendo Group. The valuer is qualified and registered as a professional Valuer with the Institute of the South African Council for Property Valuers Profession. Lutendo Property Group valuation service is not connected to the municipality and have experience in location and category of the investment property being valued.

At the reporting period the Investment Property is measured at fair value reflecting market conditions at the date of the general valuation roll period and also incorporates changes in property values during the lifecycle of the general valuation roll through supplementary valuation rolls. This valuation premise is considered appropriate by the municipality as it is practical and market conditions at reporting date are not expected to be significantly different from those reflected in the general valuation roll and supplementary valuations.

Investment property was fair valued and changes on the market value decreased the fair value as per supplementary valuations. The municipality sold property in the year under review and also there are number of properties valued as an indication of change in market conditions. These assumptions are based on current market conditions. As a result a loss on sale of 16million and a positive fairvalue adjustment amounting to 189million. In addition the municipality identified property to the value of 33million which were disposed in prior year and as a result a prior year correction was effected.

Amounts recognised in surplus and deficit for the year.

Loss on sale of investment property	(16,755,500)	(12,760,000)
Fair value adjustment	189,935,811	(3,677,553)

## Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

### Notes to the Annual Financial Statements

Figures in Rand

#### 3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	424,138,863	-	424,138,863	424,525,046	-	424,525,046
Buildings	846,496,166	(651,251,326)	195,244,840	838,949,793	(607,559,062)	231,390,731
Infrastructure	4,625,178,408	(3,778,522,470)	846,655,938	4,614,365,273	(3,659,752,707)	954,612,566
Assets under construction	146,177,986	-	146,177,986	87,483,843	-	87,483,843
Landfill site	289,513,374	(153,749,653)	135,763,721	190,419,341	(147,579,598)	42,839,743
Leased movable assets	784,219	(526,855)	257,364	784,219	(64,763)	719,456
Other Property, plant and equipment	151,109,955	(113,388,586)	37,721,369	146,661,777	(103,999,168)	42,662,609
Library books	463,831	(206,958)	256,873	2,780,711	(2,439,653)	341,058
<b>Total</b>	<b>6,483,862,802</b>	<b>(4,697,645,848)</b>	<b>1,786,216,954</b>	<b>6,305,970,003</b>	<b>(4,521,394,951)</b>	<b>1,784,575,052</b>

#### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	424,525,046	-	(386,183)	-	-	-	424,138,863
Buildings	231,390,731	-	-	7,581,252	(21,929,769)	(21,797,374)	195,244,840
Infrastructure	954,612,566	8,136,875	(966,344)	19,642,808	(114,566,543)	(20,203,424)	846,655,938
Assets under construction	87,483,843	85,982,477	-	(27,288,334)	-	-	146,177,986
Landfill site	42,839,743	99,094,033	-	-	(6,145,097)	(24,958)	135,763,721
Leased movable assets	719,456	-	-	-	(392,109)	(69,983)	257,364
Other Property, plant and equipment	42,662,609	3,467,954	(41,657)	64,274	(8,431,811)	-	37,721,369
Library books	341,058	29,279	(2,462)	-	(111,002)	-	256,873
	<b>1,784,575,052</b>	<b>196,710,618</b>	<b>(1,396,646)</b>	<b>-</b>	<b>(151,576,331)</b>	<b>(42,095,739)</b>	<b>1,786,216,954</b>

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## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Donatioons	Transfer from leases	Depreciation	Impairment loss	Total
Land	428,583,567	-	(4,058,521)	-	-	-	-	-	424,525,046
Buildings	245,290,500	11,456,318	-	-	-	-	(22,944,203)	(2,411,884)	231,390,731
Infrastructure	1,000,833,914	2,670,500	(147,697)	62,939,707	5,196,014	-	(116,504,886)	(374,986)	954,612,566
Assets under construction	103,431,948	60,663,840	-	(62,939,707)	-	-	-	(13,672,238)	87,483,843
Landfill site	31,467,798	13,963,949	-	-	-	-	(2,592,004)	-	42,839,743
Leased movable assets	170,413	784,219	-	-	-	-	(235,176)	-	719,456
Other property, plant and equipment	27,462,999	22,518,297	(97,870)	-	178,047	1,018,082	(8,382,875)	(34,071)	42,662,609
Library Books	477,322	-	(6,955)	-	-	-	(129,309)	-	341,058
	<b>1,837,718,461</b>	<b>112,057,123</b>	<b>(4,311,043)</b>	<b>-</b>	<b>5,374,061</b>	<b>1,018,082</b>	<b>(150,788,453)</b>	<b>(16,493,179)</b>	<b>1,784,575,052</b>

#### Pledged as security

Carrying value of assets pledged as security:

Office equipment	257,364	719,456
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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## Notes to the Annual Financial Statements

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### 4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3,185,591	(2,063,787)	1,121,804	3,266,542	(2,063,787)	1,202,755

#### Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Impairment loss	Total
Computer software	1,202,755	328,508	(3,766)	(405,693)	1,121,804

#### Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	1,640,000	(437,245)	1,202,755

#### Pledged as security

All intangible assets are held at cost less amortization and impairment and no intangible assets have been pledged as security for any liabilities of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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### 5. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	5,430,550	-	5,430,550	5,430,550	-	5,430,550

#### Reconciliation of heritage assets 2020

	Opening balance	Total
Historical monuments	5,430,550	5,430,550

#### Reconciliation of heritage assets 2020

	Opening balance	Additions	Total
Historical monuments	5,425,337	5,213	5,430,550

#### Pledged as security

No heritage assets were pledged for any liabilities of the municipality

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>6. Other financial assets</b>		
<b>Designated at fair value</b>		
Old Mutual shares	388,735	684,484
2019: 32287 @R21.20		
2020: 32287 @R12.04		
Sanlam shares	144,522	191,649
2019: 2452 @R78.16		
2020: 2452 @R58.94		
Nedbank shares	105,206	262,315
2019: 1036@ R253.20		
2020: 1036@ R101.55		
	<b>638,463</b>	<b>1,138,448</b>
<b>At amortised cost</b>		
ABSA Fixed deposit	12,270,036	11,396,404
The ABSA balance is held as security for the DBSA loan with a balance of R 1 170 125 as at year end (2019: R 2 724 557)		
<b>Total other financial assets</b>	<b>12,908,499</b>	<b>12,534,852</b>
<b>Non-current assets</b>		
Designated at fair value	638,463	1,138,448
At amortised cost	12,270,036	11,396,404
	<b>12,908,499</b>	<b>12,534,852</b>

## 7. Employee benefit obligations

### Defined benefit plan

#### Post-retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.

At the valuation date individuals entitled to a post - retirement medical aid subsidy were:

In - service (employee) members.  
In - service (employee) non - members.  
Continuation (retiree and widow) members

#### Pension benefits

The municipality employees belong to a contribution pension plan. The contributions are payable to the pension service providers on a monthly . The employer expenditure in relation to contributions are recognised as a expenditure. There are no planned assets on such contributions, the benefit thereof are vested with various service providers chosen by the employees, the lump sums are therefore payable when an employee terminate his/her services as a result of retirement.

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 7. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(58,088,391)	(56,480,864)
Movement for the year	11,932,695	(1,607,527)
	<b>(46,155,696)</b>	<b>(58,088,391)</b>
Non-current liabilities	(42,727,995)	(56,405,538)
Current liabilities	(3,427,701)	(1,682,853)
	<b>(46,155,696)</b>	<b>(58,088,391)</b>

At the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(58,088,391)	(56,480,864)
Benefits paid	3,249,288	4,522,000
Net expense recognised in the statement of financial performance	8,683,407	(6,129,527)
	<b>(46,155,696)</b>	<b>(58,088,391)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(1,682,853)	(1,517,000)
Past service cost	(5,691,000)	(5,298,000)
Actuarial gains/losses	16,057,260	685,473
	<b>8,683,407</b>	<b>(6,129,527)</b>



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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 7. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	12.20 %	10.08 %
Consumer Price Inflation	6.89 %	6.54 %
Health Care Cost Inflation	8.39 %	8.04 %
Net discount rate	3.52 %	1.89 %

The determination of the investment returns are as per market yields at balance sheet date on government bonds. Two most important financial variables used in our valuation are the discount- and medical aid inflation rates, the zero coupon yield curve from Johannesburg Stock Exchange were used to determine the discount rates and CPI assumptions.

The discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 12.20% per annum.

The yield on inflation linked bonds of a similar term was about 4.50% per annum, implying an underlying expectation of inflation of 6.89% per annum.

A healthcare cost inflation rate of 8.39% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability. It is the relative levels of the discount rate and healthcare inflation to one another that are important rather than the nominal values. It has thus assumed a net discount factor of 3.52% per annum

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables i.e

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical Aid inflation

#### Withdrawal rate

The change in the withdrawal assumption by a 20% decrease would result in an 1.29% increase in the accrued liability whilst a 20% increase would result in a 1.40% decrease in the accrued liability.

#### Medical Inflation Rate

As per the table above, a 1% increase in the medical inflation rate results in a 13.13% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 10.89% decrease in the accrued liability.

#### Discount Rate

Inversely, a 1% increase in the discount rate results in a 10.13% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 12.37% increase in the accrued liability

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 7. Employee benefit obligations (continued)

#### Sensitivity analysis

Withdrawal rate	20% increase R's	Valuation assumptions	20% decrease R's
Accrued liability	46,802,183	46,155,291	45,561,096
Service Cost	1,466,416	1,406,039	1,351,718
Interest Cost	5,500,776	5,421,855	5,349,363
	<b>53,769,375</b>	<b>52,983,185</b>	<b>52,262,177</b>

Medical Inflation Rate	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Accrued liability	41,130,458	46,155,291	52,213,881
Service cost	1,158,791	1,406,039	1,719,601
Interest cost	4,809,824	5,421,855	6,160,010
	<b>47,099,073</b>	<b>52,983,185</b>	<b>60,093,492</b>

Discount Rate	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Accrued liability	51,862,877	46,155,291	41,480,786
Service cost	1,694,815	1,406,039	1,178,977
Interest cost	5,616,691	5,421,855	5,249,235
	<b>59,174,383</b>	<b>52,983,185</b>	<b>47,908,998</b>

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The amount recognised as an expense for defined contribution plans is 69,834,927 53,530,525

### 8. Long term receivables

Long term receivables are comprised of balances of customers who made arrangements with the municipality to pay their outstanding debt over longer period initiated by signed debt arrangement,

#### Summary of long term debtors

Gross long term receivables	36,402,253	64,970,070
Less: Allowance for impairment	(23,521,183)	(32,351,933)
	<b>12,881,070</b>	<b>32,618,137</b>
Long term receivables	8,881,071	12,117,463
Long term receivables : Current portion	3,999,999	20,500,674
	<b>12,881,070</b>	<b>32,618,137</b>

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>9. Inventories</b>		
Consumable stores	17,675,378	13,885,124
Water for distribution	611,709	725,256
	<b>18,287,087</b>	<b>14,610,380</b>
<b>10. Receivables from non-exchange transactions</b>		
Fines	918,020	1,399,527
Government grants and subsidies	-	10,152,322
Property rates	48,285,946	48,101,857
	<b>49,203,966</b>	<b>59,653,706</b>
<b>Statutory receivables included in receivables from non-exchange transactions above are as follows:</b>		
Property rates	83,803,797	48,101,857
Fines	918,020	1,399,527
	<b>84,721,817</b>	<b>49,501,384</b>
<b>Financial asset receivables included in receivables from non-exchange transactions above</b>	<b>(35,517,851)</b>	<b>-</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Total receivables from non-exchange transactions</b>	<b>49,203,966</b>	<b>59,653,707</b>
<b>Summary of property rates</b>		
Gross balance	198,658,918	160,292,525
Less: Allowance for impairment	(150,401,160)	(112,190,668)
	<b>48,257,758</b>	<b>48,101,857</b>
<b>Summary of rates per ageing</b>		
Current (0-30 days)	21,418,303	22,734,895
31 - 60 days	9,649,200	7,440,395
61 - 90 days	7,725,328	6,546,266
> 121 days	7,386,952	10,071,314
Less: Allowance for impairment	152,477,265	113,499,655
	(150,401,160)	(112,190,668)
	<b>48,255,888</b>	<b>48,101,857</b>
<b>Consumers</b>		
Current (0-30 days)	10,024,641	10,309,566
31 - 60 days	4,114,568	2,841,669
61 - 90 days	3,377,707	2,428,007
91 - 120 days	3,336,912	2,405,980
> 121 days	49,415,440	35,960,274
Less: Allowance for impairment	(49,195,973)	(35,939,657)
	<b>21,073,295</b>	<b>18,005,839</b>
<b>Industrial/Commercial</b>		
Current (0-30 days)	10,381,325	11,819,185
31 - 60 days	4,782,908	4,243,542
61 - 90 days	3,804,937	3,598,068
91 - 120 days	3,587,646	7,340,856
> 121 days	92,834,440	64,637,971
Less: Allowance for impairment	(91,201,342)	(63,924,854)
	<b>24,189,914</b>	<b>27,714,768</b>
<b>National and provincial government</b>		
Current (0-30 days)	986,199	179,045
31 - 60 days	728,397	24,064
61 - 90 days	519,380	22,446
91 - 120 days	438,235	15,568
> 121 days	9,743,350	7,581,605
Less: Allowance for impairment	(9,521,629)	(6,964,144)
	<b>2,893,932</b>	<b>858,584</b>
<b>Other</b>		
Current (0 - 30 days)	26,138	427,100
31 - 60 days	23,326	331,119
61 - 90 days	23,305	497,748
91 - 120 days	24,160	308,909
> 121 days	484,035	5,319,805
Less: Allowance for impairment	(482,216)	(5,362,014)
	<b>98,748</b>	<b>1,522,667</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 10. Receivables from non-exchange transactions (continued)

No receivables from non-exchange transactions were pledged as security

None of the financial assets that are fully performing have been renegotiated in the last year.

#### Fair value of receivables from non-exchange transactions

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(112,190,668)	(59,778,640)
Provision for impairment	(38,210,492)	(52,412,028)
	<b>(150,401,160)</b>	<b>(112,190,668)</b>

### Fines

Fines are penalties of money that authorities decide has to be paid as punishment for offence. The amount of a fine are determined case by case, fines details are as follow:

Credit quality of receivables from non-exchange transactions

The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are

of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following

month. Thereafter interest is charged at a rate determined by council on the outstanding balance[Provide details]

#### Summary of fines

Gross fines	66,631,105	64,802,640
Provision for impairment	(65,713,085)	(63,403,113)
	<b>918,020</b>	<b>1,399,527</b>

#### Reconciliation of provision for impairment of receivables from fines

Opening balance	(63,403,113)	(54,982,426)
Movement on provision for impairment	(2,309,971)	(8,420,687)
	<b>(65,713,084)</b>	<b>(63,403,113)</b>

### 11. Receivables from exchange transactions

#### Gross balances

Consumer debtors - Electricity	293,636,727	226,605,435
Consumer debtors - Water	769,036,223	586,875,592
Consumer debtors - Sewerage	273,890,653	196,158,165
Consumer debtors - Refuse	235,656,886	161,992,203
Consumer debtors - Other	535,512,049	422,062,155
	<b>2,107,732,538</b>	<b>1,593,693,550</b>

#### Less: Allowance for impairment

Consumer debtors - Electricity	(246,175,516)	(167,247,793)
Consumer debtors - Water	(629,060,994)	(541,252,362)
Consumer debtors - Sewerage	(251,615,305)	(184,489,243)
Consumer debtors - Refuse	(214,551,386)	(140,812,116)
Consumer debtors - Other	(529,591,638)	(414,861,612)
	<b>(1,870,994,839)</b>	<b>(1,448,663,126)</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>11. Receivables from exchange transactions (continued)</b>		
<b>Net balance</b>		
Consumer debtors - Electricity	47,461,211	59,357,642
Consumer debtors - Water	139,975,229	45,623,230
Consumer debtors - Sewerage	22,275,348	11,668,922
Consumer debtors - Refuse	21,105,500	21,180,087
Consumer debtors - Other	5,920,411	7,200,543
	<b>236,737,699</b>	<b>145,030,424</b>
<b>Electricity</b>		
Current (0 -30 days)	58,335,164	53,781,143
31 - 60 days	11,287,987	9,254,171
61 - 90 days	10,125,101	6,828,986
91 - 120 days	9,782,424	7,085,911
> 121 days	203,855,833	155,563,324
Less: Allowance for impairment	(246,175,516)	(167,247,793)
	<b>47,210,993</b>	<b>65,265,742</b>
<b>Water</b>		
Current (0 -30 days)	81,384,470	113,939,491
31 - 60 days	27,567,941	27,965,107
61 - 90 days	25,032,431	16,584,052
91 - 120 days	24,390,955	13,754,370
> 121 days	610,784,368	435,134,795
Less: Allowance for impairment	(685,436,727)	(541,175,576)
	<b>83,723,438</b>	<b>66,202,239</b>
<b>Sewerage</b>		
Current (0 -30 days)	9,919,002	9,359,160
31 - 60 days	8,421,810	5,949,045
61 - 90 days	8,611,757	5,465,177
91 - 120 days	8,355,227	5,319,842
> 121 days	238,574,115	176,877,127
Less: Allowance for impairment	(251,615,305)	(184,489,242)
	<b>22,266,606</b>	<b>18,481,109</b>
<b>Refuse</b>		
Current (0 -30 days)	10,618,148	9,803,642
31 - 60 days	8,283,172	6,121,840
61 - 90 days	7,744,905	5,710,357
91 - 120 days	7,655,924	5,728,422
> 121 days	201,354,737	140,376,907
Less: Allowance for impairment	(214,551,386)	(140,812,116)
	<b>21,105,500</b>	<b>26,929,052</b>
<b>Sundry debtors</b>		
Current (0 -30 days)	1,440,238	171,102,216
31 - 60 days	2,679,846	2,708,083
61 - 90 days	3,134,967	2,693,282
91 - 120 days	3,722,369	2,673,854
> 121 days	489,796,699	287,018,273
Less: Allowance for impairment	(494,624,112)	(456,441,808)
	<b>6,150,007</b>	<b>9,753,900</b>

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>11. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	109,198,171	91,907,867
31 - 60 days	51,593,356	40,471,406
61 - 90 days	48,931,697	30,340,625
91 - 120 days	48,884,623	28,929,893
> 121 days	1,427,111,584	1,052,618,672
	<u>1,685,719,431</u>	<u>1,244,268,463</u>
Less: Allowance for impairment	(1,536,449,915)	(1,109,190,601)
	<b>149,269,516</b>	<b>135,077,862</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	44,138,078	46,045,031
31 - 60 days	5,591,058	6,222,484
61 - 90 days	4,355,106	2,795,590
91 - 120 days	3,433,663	2,430,709
> 121 days	78,510,632	56,279,653
	<u>136,028,537</u>	<u>113,773,467</u>
Less: Allowance for impairment	(107,817,619)	(79,982,741)
	<b>28,210,918</b>	<b>33,790,726</b>
<b>National and provincial government</b>		
Current (0 -30 days)	8,065,445	5,877,308
31 - 60 days	836,391	1,241,396
61 - 90 days	1,122,572	936,533
91 - 120 days	962,942	889,831
> 121 days	29,284,493	25,625,802
	<u>40,271,843</u>	<u>34,570,870</u>
Less: Allowance for impairment	(37,749,475)	(30,711,201)
	<b>2,522,368</b>	<b>3,859,669</b>
<b>Other debtors</b>		
Current (0 -30 days)	295,329	214,155,446
31 - 60 days	219,951	4,062,960
61 - 90 days	239,786	3,209,105
91 - 120 days	625,971	2,311,966
> 121 days	209,459,042	60,446,299
	<u>210,840,079</u>	<u>284,185,776</u>
Less: Allowance for impairment	(210,386,036)	(270,281,993)
	<b>454,043</b>	<b>13,903,783</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(1,490,243,322)	(922,215,269)
Contributions to allowance	(402,159,724)	(568,028,053)
	<b>(1,892,403,046)</b>	<b>(1,490,243,322)</b>
<b>Statutory receivables general information</b>		

## Govan Mbeki Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>12. VAT receivable/(payable)</b>		
VAT	30,275,902	(11,699,318)



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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	19,090	18,990
Bank balances	13,890,228	4,386,187
Short-term deposits	164,659,292	92,836,604
	<b>178,568,610</b>	<b>97,241,781</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Standard Bank Account (Primary) -030192358	37,783,887	20,432,818	33,720,084	13,890,228	2,574,998	(101,996,377)
Standard Bank account - MIG - 038787024-006	41,831,613	19,993,421	278,131	41,831,613	19,993,421	278,131
Standard Bank account - EMBA - 038787024-003	406,075	385,238	362,617	406,075	385,238	362,617
Standard Bank account - Traffic - 030195276	1,336,639	759,808	2,813,915	1,336,639	759,808	2,813,915
Standard Bank - Call Account - 038787024-009	121,087,442	71,700,775	19,890,697	121,087,442	71,700,775	19,890,697
<b>Total</b>	<b>202,445,656</b>	<b>113,272,060</b>	<b>57,065,444</b>	<b>178,551,997</b>	<b>95,414,240</b>	<b>(78,651,017)</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	417,200	500,640
- in second to fifth year inclusive	-	417,200
	417,200	917,840
less: future finance charges	(18,948)	(84,313)
<b>Present value of minimum lease payments</b>	<b>398,252</b>	<b>833,527</b>
<b>Present value of minimum lease payments due</b>		
- within one year	398,252	435,276
- in second to fifth year inclusive	-	398,252
	<b>398,252</b>	<b>833,528</b>
Non-current liabilities	398,252	398,252
Current liabilities	-	435,276
	<b>398,252</b>	<b>833,528</b>

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 2 -3 years and the average effective borrowing rate is 10% (2019: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

### Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	398,252	833,528
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The fair value of finance lease liabilities approximates their carrying amounts.

### 15. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	6,581,422	1,983,123
LG SETA Grant	3,108,522	2,208,365
Sport development grant	453,685	453,685
Economic Development and Tourism	286,843	286,843
Pre-capacity grant	313,901	313,901
Extended Public Works Programme Grant	-	144,730
SASOL	15,116,475	15,116,475
Financial Management Grant	86,009	85,550
Water Service Infrastructure Grant	7,150,446	1,019,600
Infrastructure Skills Development Grant	925,088	925,088
Gert Sibande District Municipality	2,200,000	-
	<b>36,222,391</b>	<b>22,537,360</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 15. Unspent conditional grants and receipts (continued)

These amounts are invested in a ring-fenced investment until utilised.

### 16. Other financial liabilities

#### At amortised cost

Development Bank of South Africa	1,170,124	2,724,557
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#### Non-current liabilities

At amortised cost	-	1,212,732
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#### Current liabilities

At amortised cost	1,170,125	1,511,825
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### 17. Provisions

#### Reconciliation of provisions - 2020

	Opening Balance	Discount and interest rates used in computations	Change in life for Bethal, Kinross, Leandra and Secunda landfills	Changes in capping specifications, quantities, rates and prices	Net change due to interaction between the above variables	Interest	Total
Landfill site	108,985,810	(16,859,625)	34,438,583	163,523,534	(28,326,027)	19,422,761	281,185,036

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Landfill site	85,145,526	23,840,284	108,985,810
Non-current liabilities	181,138,490		105,465,568
Current liabilities	100,046,546		3,520,242
	<b>281,185,036</b>		<b>108,985,810</b>

The municipality will incur licensing and rehabilitation cost of R281 181 036 in 2020 (2019: R 108 985 810) to restore landfill sites at the end of their use. As at 30 June 2019, this liability will be incurred over 0 to 30 years. Provision has been made for the net present value of the expenditures expected to be required to settle the obligation using the average cost of borrowings.

The net discount rate decreased applied on the liability is 3.23% and fixed interest rate of 9.34% thus increased the liability as at 30 June 2020.

Increase in land fill site provision increased mainly due to the following :

- Higher capping specifications required for environmental reasons where landfills are unlined.
- Simultaneous change in all the variables results in a less severe effect than that implied by adding the effects of the individual changes.
- Revised useful life for certain land fill sites

### 18. Long service awards

The municipality operates a defined benefit plan for all its employees. The long service award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet its liability.

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 18. Long service awards (continued)

Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive) to employees. Furthermore, a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of a long service based on historical staff turnover.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date. The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP25.

At year end of 2020 1200 employees (2019: 1209) were eligible for long service awards. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Govan Mbeki advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

#### Valuation of liabilities

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

#### Valuation of assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability

The amounts recognised in the statement of financial position are as follows:

#### Carrying amount

Non Current Liability	(27,275,364)	(25,183,406)
Current Liability	(3,140,924)	(2,766,767)
	<b>(30,416,288)</b>	<b>(27,950,173)</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 18. Long service awards (continued)

#### Changes in the present value of the long service liability are as follows:

Opening balance	(27,950,173)	(25,927,250)
Benefits paid	2,766,767	3,518,448
Net expense recognised in the statement of financial performance	(5,232,882)	(5,541,371)
	<b>(30,416,288)</b>	<b>(27,950,173)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(2,096,425)	(2,473,106)
Interest cost	(2,191,760)	(2,241,007)
Actuarial gains/(losses)	(944,697)	(827,858)
	<b>(5,232,882)</b>	<b>(5,541,971)</b>

### Valuation assumptions

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Discount rate	8.25%	8.26%
CPI	4.95%	3.95%
Salary Increase rate	5.95%	4.95%
Net Discount rate	2.17%	3.15%
	-	-

The valuation bases assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 2.17% less than the corresponding discount rate, in the long term.

1% increase in the salary increase rate results in a 6.77% increase in the accrued liability whilst a 1% decrease in the salary increase rate will result in a 6.15% decrease in the accrued liability, similarly, a 1% increase in the discount rate results in a 4.48% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 4.93% increase in the accrued liability.

The effect of a one percent increase and decrease in the salary inflation and discount rates is as follows:

Salary Inflation Rate	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Accrued liability	28,545,379	30,416,288	32,474,704
Current Service Cost	2,072,747	2,228,756	2,402,232
Interest cost	2,228,643	2,382,665	2,552,177
	-	-	-
Discount Rate	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Accrued liability	31,916,559	30,416,288	29,053,288
Current Service Cost	2,375,185	2,228,756	2,098,393
Interest cost	2,506,250	2,382,665	2,270,419
	-	-	-

### Retirement

The effects of a one (1) year and two (2) year reduction on the average retirement age of 63 years. A one (1) reduction in the retirement age results in a 4.18% decrease in the accrued liability whilst a two (2) year reduction in the retirement age results in an 8.69% reduction in the accrued liability.

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 18. Long service awards (continued)

#### Assumed Retirement Age

	30 June 2020 Valuation basis R's	Retirement age – 1 R	Retirement age – 2 R
Accrued liability	30,416,288	29,144,856	27,772,720
Current Service Cost	2,228,756	2,147,138	2,060,242
Interest cost	2,382,665	2,278,008	2,164,913
	-	-	-

#### Withdrawals

The effects of a 20% decrease and 20% increase in the withdrawal assumptions as at 30 June 2020. The adjustment would result in a 4.93% increase and a 4.48% decrease in the accrued liability respectively.

#### Withdrawal decrement

	20% increase R's	30 June 2020 Valuation basis R's	20% decrease R's
Accrued liability	31,916,559	30,416,288	29,053,288
Current Service Cost	2,375,185	2,228,756	2,098,393
Interest cost	2,506,250	2,382,665	2,270,419
	-	-	-

### 19. Payables from exchange transactions

Trade payables	2,546,683,069	1,810,677,496
Payments received in advanced	39,336,026	65,267,937
Retentions	21,041,366	15,440,248
Accrued leave pay	29,836,924	24,578,716
Accrued bonus	9,261,154	8,585,627
Accrued expense	5,652,885	33,367,718
Salary control	2,536,729	3,458,626
Inventory	1,376	-
	<b>2,654,349,529</b>	<b>1,961,376,368</b>

### 20. Payables from non-exchange transactions

Unallocated receipts	15,895,141	8,605,048
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### 21. Consumer deposits

Electricity	9,725,387	9,354,228
Water	16,757,544	15,881,569
Refuse	313	313
Sewer	700	700
Housing rental	173,171	251,832
	<b>26,657,115</b>	<b>25,488,642</b>

### 22. Service charges

Sale of electricity	490,857,899	448,248,580
Sale of water	471,334,885	426,834,070
Sewerage and sanitation charges	118,649,805	108,475,123
Refuse removal	123,107,597	117,605,166
	<b>1,203,950,186</b>	<b>1,101,162,939</b>

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>23. Other income</b>		
Incidental income	1,379,263	5,618,557
<b>24. Investment revenue</b>		
<b>Interest revenue</b>		
Short term investments	1,837,485	257,539
Bank	6,870,975	5,633,824
	<b>8,708,460</b>	<b>5,891,363</b>
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	151,135,052	141,223,920
Industrial properties	22,541,331	20,693,300
State	14,077,757	12,427,140
Small holdings and farms	2,377,793	2,100,115
Commercial and businesses	133,535,443	112,280,025
	<b>323,667,376</b>	<b>288,724,500</b>
<b>Valuations</b>		
Residential	21,899,870,719	20,538,530,809
Commercial	5,609,307,900	6,330,921,010
State	686,377,000	519,237,000
Municipal	747,564,415	644,861,915
Small holdings and farms	2,932,561,400	2,817,808,400
Churches	284,515,000	307,570,000
NGO's	121,335,500	110,412,000
	<b>32,281,531,934</b>	<b>31,269,341,134</b>
Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.		
The new general valuation will be implemented on 01 July 2024.		
<b>26. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	5,675,701	4,355,951
<b>27. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Indigent support	32,046,712	34,416,662

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 28. Government grants and subsidies

#### Operating grants

Equitable share	284,503,723	257,244,410
Expendable public works programme	1,743,730	1,792,269
Financial Management Grant	1,769,541	1,684,450
Energy Efficiency and Demand Side Management Grant	-	6,000,000
LG SETA Grant	57,680	-
Municipal Infrastructure Skills Development	24,605,075	29,796,942
Disaster Management Grant	1,013,000	-
	<b>313,692,749</b>	<b>296,518,071</b>

#### Capital grants

Municipal Infrastructure Grant	62,221,578	54,667,879
Water Service Infrastructure Grant	12,850,618	8,980,521
SASOL	-	15,444,055
Integrated National Electrification Grant	16,000,000	8,000,000
	<b>91,072,196</b>	<b>87,092,455</b>
	<b>404,764,945</b>	<b>383,610,526</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	143,716,613	126,199,653
Unconditional grants received	281,501,000	257,244,410
	<b>425,217,613</b>	<b>383,444,063</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 254 (2019: R 239), which is funded from the grant.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	1,983,123	-
Current-year receipts	68,803,000	56,651,000
Conditions met - transferred to revenue	(62,222,471)	(54,667,877)
Monies withheld by Treasury	(1,983,123)	-
	<b>6,580,529</b>	<b>1,983,123</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas. Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

#### LG SETA Grant

Balance unspent at beginning of year	2,208,364	1,372,393
Current-year receipts	957,836	835,971
Conditions met - transferred to revenue	(57,680)	-
	<b>3,108,520</b>	<b>2,208,364</b>

Conditions still to be met - remain liabilities (see note 15).



# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 28. Government grants and subsidies (continued)

The LGSETA mission is to build Local Governments' ability to meet its development needs by engaging innovative training methods, effective capacity building frameworks and building strategic partnerships. LGSETA creates and implements various innovative skills development interventions aimed at assisting local government employees, the unemployed and other people such as ward councillors and traditional leaders working within the structures of local government.

LG SETA allocates on a yearly basis the grants to the municipality to ensure that the skills development objectives are met as per Workplace Skills Plan(WSP).

#### Sports and Development Grant

Balance unspent at beginning of year	453,685	453,685
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This grant was received for promotion and development of sport. Projects identified for application of the grant will run in the subsequent financial year. No funds have been withheld.

#### Energy Efficient & Demand Side Management Grant

Balance unspent at beginning of year	-	4,000,000
Current-year receipts	-	6,000,000
Conditions met - transferred to revenue	-	(6,000,000)
Other	-	(4,000,000)
	-	-

Provision of subsidies to municipalities to implement energy efficient and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

#### Integrated National Electrification Programme Grant

Balance unspent at beginning of year	-	11,399,028
Current-year receipts	16,000,000	8,000,000
Conditions met - transferred to revenue	(16,000,000)	(8,000,000)
Monies withheld by Treasury	-	(11,399,028)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Implementation the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings including upgrade of informal settlements, new, and normalisation, and the installation of relevant bulk infrastructure.

#### Economic Development and Tourism

Balance unspent at beginning of year	313,900	313,900
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Conditions still to be met - remain liabilities (see note 15).

Contribution towards the detailed technical feasibility study and the development of business plan for establishment of Industrial Park.

#### Pre-capacity Grant

Balance unspent at beginning of year	286,843	286,843
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Conditions still to be met - remain liabilities (see note 15).

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 28. Government grants and subsidies (continued)

The grant was allocated to ensure that the social housing programme of provincial government was carried out. The municipality acts as an agent for implementation of the plan.

#### Gert Sibande District Municipality

Current-year receipts	2,200,000	-
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Monies received for co-funding of Electricity for Embaleh Substation and network upgrade and installation of boreholes

#### SASOL

Balance unspent at beginning of year	15,116,475	15,116,475
Current-year receipts	-	(15,266,007)
Conditions met - transferred to revenue	-	15,266,007
	<b>15,116,475</b>	<b>15,116,475</b>

#### Financial Management Grant

Balance unspent at beginning of year	85,550	9,676
Current-year receipts	1,770,000	1,770,000
Conditions met - transferred to revenue	(1,769,541)	(1,684,450)
Monies withheld by Treasury	(85,550)	(9,676)
	<b>459</b>	<b>85,550</b>

Conditions still to be met - remain liabilities (see note 15).

The Finance Management Grant is allocated to assist the municipality to secure sound and sustainable management of the fiscal and financial affairs and to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

#### Infrastructure Skills Development Grant

Balance unspent at beginning of year	925,087	8,221,821
Current-year receipts	24,605,000	22,500,000
Conditions met - transferred to revenue	(24,605,000)	(29,796,734)
	<b>925,087</b>	<b>925,087</b>

Conditions still to be met - remain liabilities (see note 15).

The grant is allocated to support the municipality to build long term and sustainable capacity by training a pool of young professionals in technical and project/operations management skills.

#### Extended Public Works Programme

Balance unspent at beginning of year	144,730	277,706
Current-year receipts	1,599,000	1,937,000
Conditions met - transferred to revenue	(1,743,730)	(1,792,270)
Monies withheld by Treasury	-	(277,706)
	<b>-</b>	<b>144,730</b>

Conditions still to be met - remain liabilities (see note 15).

EPWP grant incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus area and in compliance with the EPWP guidelines.

# Govan Mbeki Municipality

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Figures in Rand	2020	2019
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### 28. Government grants and subsidies (continued)

#### Water Service Infrastructure Grant

Balance unspent at beginning of year	1,019,600	-
Current-year receipts	20,000,000	10,000,000
Conditions met - transferred to revenue	(12,849,554)	(8,980,400)
Monies withheld by Treasury	(1,019,600)	-
	<b>7,150,446</b>	<b>1,019,600</b>

- To assist Water Services Authorities (WSAs) to reduce water and sanitation backlogsGrant purpose
- Facilitate the planning and implementation of various water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities
- Provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection and groundwater development
- Support municipalities in implementing water conservation and water demand management (WC/WDM) projects
- Support the existing Bucket Eradication Programme intervention in formal residential areas
- Support drought relief projects in affected municipalitiesProvide explanations of conditions still to be met and other relevant information

#### Municipal Disaster Grant

Current-year receipts	1,013,000	-
Conditions met - transferred to revenue	(1,013,000)	-
	-	-

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Figures in Rand	2020	2019
<b>29. Employee related costs</b>		
Basic	247,648,706	260,797,942
Bonus	21,130,446	19,430,472
Medical aid - company contributions	32,017,549	27,948,957
UIF	2,197,118	2,186,772
SDL	4,161,014	1,756,004
Leave pay provision charge	9,520,511	3,981,072
Pension fund contribution	55,688,153	53,530,525
Overtime payments	40,952,891	27,908,606
Long-service awards	599,768	109,078
Acting allowances	6,819,176	-
Travel, motor car, accommodation, subsistence and other allowances	14,890,467	15,504,823
Housing benefits and allowances	1,537,008	1,432,525
Cellphone allowance	2,142,217	2,194,057
Allowance Standby	10,905,931	9,220,504
Bargaining council levy	135,748	129,519
Non-Pensionable Allowance	61,573,807	58,416,655
	<b>511,920,510</b>	<b>484,547,511</b>

### Remuneration of Accounting Officer

Annual Remuneration	1,530,657	1,225,547
Car Allowance	120,000	90,000
Cellphone allowance	21,600	16,200
Contributions to UIF, Medical and Pension Funds	338,529	253,791
Housing allowance	-	30,000
Other benefits	62,073	13,925
	<b>2,072,859</b>	<b>1,629,463</b>

Mr SF Mndebele was appointed as Municipal Manager from 1 October 2018. Mr SF Mndebele is placed on precautionary suspension from 3 September 2020 as resolved by council \_ resolution number CA009/09/2020. Mrs EK Tshabalala the current Director Community Services has been appointed as the Acting Municipal Manager until the matter is resolved.

### Remuneration of Chief Financial Officer

Annual Remuneration	1,275,343	1,506,374
Car Allowance	96,000	96,000
Cellphone allowance	21,600	21,600
Contributions to UIF, Medical and Pension Funds	227,189	222,899
Other	111	13,147
	<b>1,620,243</b>	<b>1,860,020</b>

Mr BB Sithole was appointed Chief Financial Officer on the 1 October 2017, on 8 October 2020 Mr BB Sithole was placed on suspension as resolved by council resolution number CA011/10/2020, Mrs VB Nkhata seconded from Gert District Municipality from 20 October 2020 is currently Acting Chief Financial Officer.

### Remuneration of Director Corporate Services

Annual Remuneration	1,052,858	955,247
Car Allowance	130,560	97,920
Cellphone allowance	21,600	16,200
Contributions to UIF, Medical and Pension Funds	233,413	169,465
Other benefits	43,563	8,469
	<b>1,481,994</b>	<b>1,247,301</b>

Advocate TM Gininda was appointed as the Director Corporate Services on the 1 October 2018.

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### 29. Employee related costs (continued)

#### Remuneration of Director Planning and Development

Annual Remuneration	301,221	623,891
Car Allowance	40,000	-
Cellphone allowance	7,200	-
Contributions to UIF, Medical and Pension Funds	55,587	-
Other benefits	1,588	-
	<b>405,596</b>	<b>623,891</b>

Deputy Director Mr T.I Phungwayo acted as Director Planning and Development was acting in the period when the position was vacant, Ms KP Shilubane has been appointed on the 1 March 2020.

#### Remuneration of Director Community Services

Annual Remuneration	490,543	712,093
Car Allowance	50,000	-
Cellphone allowance	9,000	-
Contributions to UIF, Medical and Pension Funds	125,512	-
Other benefits	3,091	-
	<b>678,146</b>	<b>712,093</b>

Mr HL van der Merwe acted for the period that the position was vacant until the appointment of Mrs EK Tshabalala on the 1 February 2020.

#### Remuneration of Director Technical Services

Annual Remuneration	505,599	548,560
Car Allowance	70,000	-
Cellphone allowance	12,600	-
Contributions to UIF, Medical and Pension Funds	118,814	-
	<b>707,013</b>	<b>548,560</b>

Mr ST Mothibi and Mr S Rasmeni acted as Director Technical Services during the 2019 financial year until the appointment of Mr Maphuthi in the position with effect from 1 December 2019.

### 30. Remuneration of councillors

Executive Mayor	981,433	900,271
Chief Whip	711,187	685,403
Mayoral Committee Members	4,978,309	4,459,756
Speaker	786,248	728,375
Councillors	15,168,677	15,538,643
Section 79 Councillors	2,677,135	1,446,203
	<b>25,302,989</b>	<b>23,758,651</b>

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### 30. Remuneration of councillors (continued)

#### Councillors remuneration

The Executive Mayor, Chief Whip, Speaker, Mayoral Committee Members and MPAC Chairperson are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of political office bearers and councillors is within the upper limits as determined by Remuneration of Public Officers Bearers Act no. 20 of 1998 and as per Government Gazette no.43246.

Councillor	Appointment date	Salary	Pension	Medical aid	Other allowances	Total
Ngxonono YT (Executive Mayor)	2017/05/07	652,947	97,944	17,280	213,261	981,433
Mtshali PD (Chief Whip)	2017/05/07	473,656	71,052	-	166,479	711,187
Zuma NG (Speaker)	2017/05/07	505,229	75,792	-	205,227	786,248
Gwiji CV (MPAC Chairperson)	2017/05/07	441,525	66,240	17,280	166,476	691,521
Mahlangu BS (MMC)	2017/05/07	582,943	87,444	-	40,800	711,187
Makhanye SA (MMC)	2017/05/07	458,632	68,796	17,280	166,479	711,187
Makola MB (MMC)	2019/07/01	495,987	74,400	-	140,800	711,187
Ndaba BB(MMC)	2017/05/07	439,593	65,940	17,280	188,374	711,187
Nhlapo MD (MMC)	2017/05/07	539,223	80,892	-	91,071	711,187
Nkosi NE (MMC)	2017/07/05	473,656	71,052	-	166,479	711,187
Zulu NN (MMC)	2017/07/05	453,127	67,980	17,280	172,800	711,187
Mtsweni TP (MPAC)	2017/07/05	206,456	30,972	-	166,479	403,907
Masuku PIP (MPAC)	2017/07/05	249,138	37,380	17,280	100,109	403,907
Mtsweni MJ (Committee chairperson)	2017/07/05	266,138	39,929	-	91,071	397,138
VilakaziEA (Committee chairperson)	2017/07/05	251,114	37,673	17,280	91,071	397,138
Zulu TS (Committee chairperson)	2017/07/05	266,062	39,929	-	91,071	397,062
Mbokazi AV (Committee chairperson)	2017/07/05	258,260	38,772	-	100,107	397,138
Mnisi TR (Committee chairperson)	2017/07/05	295,016	44,146	17,176	40,800	397,138
Badenhorst H J	2017/07/05	202,251	30,348	-	91,071	323,670
Botha C	2017/07/05	185,400	28,032	1,440	108,798	323,670
Chamberlain M	2017/07/05	230,946	34,644	17,280	40,800	323,670
de Vries GR	2017/07/05	245,970	36,900	-	40,800	323,670
Denny TM	2017/07/05	118,812	16,870	-	53,125	188,808
Dube TH	2017/05/07	230,946	34,644	17,280	40,800	323,670
Fourie ME	2017/07/05	19,364	2,769	1,440	3,400	26,973
Hlolweni S	2017/07/05	194,391	29,171	-	100,108	323,670
Klaas NP	2017/07/05	194,400	29,162	-	100,108	323,670
Lukhele I	2017/07/05	202,251	30,348	-	91,071	323,670
MabizelaTM	2017/07/05	245,960	36,910	-	40,800	323,670
Mahlangu B D	2017/07/05	187,227	28,092	17,280	91,071	323,670
Mahlangu BD	2017/10/31	187,227	28,092	17,280	91,071	323,670
Mahlangu E	2017/07/05	187,227	28,092	17,280	91,071	323,670
Mahlangu NP	2017/07/05	187,227	28,092	17,280	91,071	323,670
Malaza NG	2017/07/05	230,946	34,644	17,280	40,800	323,670
MasekoTM	2016/12/01	245,970	36,900	-	40,800	323,670
Masina NA	2017/12/05	245,970	36,900	-	40,800	323,670
Masinga MM	2019/07/10	240,298	36,049	-	39,859	316,206
Mathebula SB	2017/07/08	177,306	26,604	17,280	102,480	323,670
Mazibuko KD	2017/07/05	202,251	30,348	-	91,071	323,670
Mbonani LM	2017/07/05	245,970	36,900	-	40,800	323,670
Mkhaliphi MS	2017/07/05	202,251	30,348	-	91,071	323,670
Mkhwebane ZA	2017/07/05	179,366	26,916	17,280	100,108	323,670
Mofokeng TS	2017/07/05	245,960	36,910	-	40,800	323,670
Mokoena BD	2017/07/05	202,251	30,348	-	91,071	323,670
Moloto BD	2017/07/05	194,390	29,172	-	100,108	323,670
Morajane TA	2017/07/05	202,251	30,348	-	91,071	323,670
Motloung ME	2017/07/05	192,330	28,860	-	102,480	323,670

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<b>30. Remuneration of councillors (continued)</b>						
Msibande ME	2017/10/31	171,816	25,776	17,280	108,798	323,670
Ndoda NM	2017/07/05	202,251	30,348	-	91,071	323,670
Ndwanyaza PN	2017/07/05	245,970	36,900	-	40,800	323,670
Nel Buitendag AD	2017/07/05	245,960	36,910	-	40,800	323,670
Njinga SC	2017/07/05	202,251	30,348	-	91,071	323,670
Nkabinde E R	2017/07/05	180,589	27,132	15,840	100,109	323,670
Nkabinde JB	2017/07/05	202,251	30,348	-	91,071	323,670
Ntuli SR	2017/07/05	245,970	36,900	-	40,800	323,670
Sebolela JD	2017/07/05	202,251	30,348	-	91,071	323,670
Selepe AM	2017/07/05	143,197	21,053	7,200	63,285	234,736
Shai KJ	2017/07/05	192,330	28,860	-	102,480	323,670
Sibanyoni SI	2017/07/05	179,365	26,916	17,280	100,109	323,670
Sithole LE	2017/07/05	179,365	26,916	17,280	100,109	323,670
Swart EP	2017/07/05	245,960	36,910	-	40,800	323,670
Thabeyhe IM	2017/07/05	192,330	28,860	-	102,480	323,670
van Huyssteen NC	2017/07/05	187,227	28,092	17,280	91,071	323,670
van Rooyen EJ	2017/07/05	202,251	30,348	-	91,071	323,670
<b>Total remuneration</b>		<b>16,557,145</b>	<b>2,482,711</b>	<b>388,696</b>	<b>5,874,434</b>	<b>25,302,989</b>

2019

Councillor	Appointment date	Salary	Pension	Medical aid	Other allowances	Total
Ngxonono YT (Executive Mayor)	2017/05/07	622,720	93,792	17,280	166,479	900,271
Mtshali PD (Chief Whip)	2017/05/07	450,992	67,932	-	166,479	685,403
Zuma NG (Speaker)	2017/05/07	481,056	72,462	-	174,857	728,375
Gwiji CV (MPAC Chairperson)	2017/05/07	419,527	63,210	17,280	166,476	666,493
Mahlangu BS (Member Mayoral committee)	2017/05/07	560,279	84,324	-	40,800	685,403
Makhanye SA (Member Mayoral committee)	2017/05/07	435,968	65,676	17,280	16,479	685,403
Ndaba BB (Member Mayoral committee)	2017/05/07	416,929	62,820	17,280	40,800	685,403
Nhlapho MD (Member Mayoral committee)	2017/05/07	516,562	77,770	-	91,071	685,403
Nkosi NE (Executive/Mayoral committee)	2017/07/05	442,228	66,616	10,080	166,479	685,403
Zulu NN (Member Mayoral committee)	2017/07/05	545,249	82,074	17,280	40,800	685,403
Mtsweni TP	2017/07/05	194,107	29,269	-	166,479	389,855
Masuku PIP	2017/07/05	236,790	35,676	17,280	100,109	389,855
Badenhorst HJ	2017/07/05	192,696	29,022	-	91,071	312,790
Botha C	2017/07/05	192,711	28,916	16,364	74,799	312,790
Chamberlain M	2017/07/05	221,380	33,330	17,280	40,800	312,790
De Vries GR	2017/07/05	236,395	35,585	-	40,800	312,780
Danny TM	2017/07/05	192,696	29,022	-	91,071	312,790
Dube TH	2017/05/26	221,380	33,330	17,280	40,800	312,790
Fourie ME	2017/07/05	230,250	34,540	7,200	40,800	312,790
Hlolweni S	2017/07/05	184,837	27,845	-	100,108	312,790
Klaas NP	2017/07/05	185,746	27,840	8,980	90,223	312,790
Lukhele I	2017/07/05	192,696	29,022	-	91,071	312,790
Mabizela TM	2017/07/05	236,404	35,586	-	40,800	312,790
Mahlangu BD	2017/07/05	177,660	26,778	17,280	91,071	312,790
Mahlangu BD	2017/07/05	177,660	26,778	17,280	91,071	312,790
Mahlangu BS	2017/10/31	211,523	31,854	17,280	52,133	312,790
Mahlangu E	2017/07/05	177,660	26,778	17,280	91,071	312,790
Mahlangu NP	2017/07/05	177,660	26,778	17,280	91,071	312,790
Makola MB	2017/07/04	214,798	32,432	-	100,108	347,338
Malaza NG	2017/07/05	221,380	33,330	17,280	40,800	312,790
Maseko TM	2016/12/01	236,404	35,586	-	40,800	312,790

# Govan Mbeki Municipality

(Registration number MP307)

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## Notes to the Annual Financial Statements

Figures in Rand				2020	2019	
<b>30. Remuneration of councillors (continued)</b>						
Masina NA	2017/12/05	236,404	35,586	-	40,800	312,790
Mathebula SB	2017/07/08	176,502	26,598	7,200	102,480	312,780
Mazibuko KD	2017/07/05	192,696	29,022	-	91,071	312,790
Mbokazi AV	2017/07/05	184,837	27,846	-	10,007	312,790
Mbonani LM	2017/07/05	236,404	35,586	-	40,800	312,790
Mkhaliphi S	2017/07/05	192,696	29,022	-	91,071	312,790
Mkwebane ZA	2017/07/05	174,114	26,230	17,280	95,166	312,790
Mnisi TR	2017/07/05	222,264	33,324	16,402	40,800	312,790
Mofokeng TS	2017/07/05	236,404	35,586	-	40,800	312,790
Mokoena BD	2017/07/05	192,696	29,022	-	91,071	312,790
Moloto BD	2017/07/05	184,837	27,845	-	100,108	312,790
Morajane TA	2017/07/05	192,696	29,022	-	91,071	312,790
Motloung ME	2017/07/05	182,776	27,534	-	102,480	312,790
Mtsweni MJ	2017/07/05	192,696	29,022	-	91,071	312,790
Ndoda NM	2017/07/05	192,696	29,022	-	91,071	312,790
Mdwanyaza PN	2017/07/05	236,404	35,586	-	40,800	312,790
Nel Buitendag AD	2017/07/05	236,404	35,586	-	40,800	312,790
Njinga SC	2017/07/05	192,696	29,022	-	91,071	312,790
Nkabinde E	2017/07/05	169,811	25,590	17,280	100,109	312,790
Nkabinde JB	2017/07/05	192,696	29,022	-	91,071	312,790
Nkosi MJ	2017/07/05	131,411	19,382	-	61,161	211,954
Ntuli SR	2017/07/05	236,404	35,586	-	40,800	312,790
Sebolela JD	2017/07/05	192,696	29,022	-	91,071	312,790
Shai KJ	2017/07/05	182,776	27,534	-	102,480	312,790
Sibanyoni SI	2017/07/05	169,811	25,590	17,280	100,109	312,790
Sithole LE	2017/07/05	169,811	25,590	17,280	100,109	312,790
Swart EP	2017/07/05	236,404	35,586	-	40,800	312,790
Thabethe IM	2017/07/05	182,776	27,534	-	102,480	312,790
Van Huyssteen NC	2017/07/05	177,660	26,778	17,280	91,071	312,790
Van Rooyen EJ	2017/07/05	192,696	29,022	-	91,071	312,790
Vilakazi EA	2017/07/05	177,660	26,778	17,280	91,071	312,790
Zulu TS	2017/07/05	192,696	29,022	-	91,071	312,790
		<b>15,465,873</b>	<b>2,328,470</b>	<b>411,826</b>	<b>5,164,788</b>	<b>23,758,652</b>

Terminations	Date	Reason
Denny TM	31 January 2020	Resignation
Fourie ME	31 July 2019	Resignation

Appointments	Date	Reason
Masinga MM	10 July 2019	
Selepe AM	10 July 2019	

### 31. Depreciation and amortisation

Property, plant and equipment	154,810,746	151,447,138
Intangible assets	405,693	437,244
	<b>155,216,439</b>	<b>151,884,382</b>

### 32. Impairment of assets

<b>Impairments</b>		
Property, plant and equipment	42,095,738	16,493,177



# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>33. Finance costs</b>		
Employee obligation interest	7,882,760	7,539,007
Trade and other payables	202,241,341	164,021,680
Finance leases	65,364	37,493
Current borrowings	169,179	391,576
Land fill site	19,422,761	2,852,375
	<b>229,781,405</b>	<b>174,842,131</b>
<b>34. Debt impairment</b>		
Debt impairment	481,658,758	632,637,584

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 35. Bulk purchases

Electricity - Eskom	692,765,909	622,873,049
Water	338,109,318	292,329,160
	<b>1,030,875,227</b>	<b>915,202,209</b>

### Electricity losses

#### Electricity units

Unit purchased

Units sold

588,304,331	583,952,765
(256,280,683)	(278,247,237)
<b>332,023,648</b>	<b>305,705,528</b>

### Electricity are comprised of:

Technical losses

Non-Technical losses

60,310,933	58,395,277
271,712,715	247,310,251
<b>332,023,648</b>	<b>305,705,528</b>

### Percentage losses

Technical losses in %

Non-Technical losses %

10	10
46	42
<b>56</b>	<b>52</b>

### Water losses

#### Water in Kilo-litres

Water stock opening

Water stock closing balance

Kilo-litres purchased

Kilo-litres sold

76,887	80,401
(82,515)	(76,887)
33,163,981	30,956,318
(22,824,726)	(22,872,295)
<b>10,333,627</b>	<b>8,087,537</b>

# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

### 35. Bulk purchases (continued)

#### Water losses are comprised of:

Technical losses	4,117,018	3,103,672
Non-technical losses	6,216,609	4,983,865
	<b>10,333,627</b>	<b>8,087,537</b>

#### Percentage water losses

Technical losses in percentage %	10	10
Non-technical losses in percentage %	18	16
	<b>28</b>	<b>26</b>

### 36. Contracted services

#### Presented previously

Legal services	13,158,522	10,186,343
Meter reading	18,864,499	18,633,053
Security services	29,173,677	23,208,013
Professional fees	6,439,399	805,131
Other Contractors	52,666,674	67,139,217
Hiring of Plant	7,078,974	-

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>37. General expenses</b>		
Advertising	368,267	613,540
Auditors remuneration	4,228,084	7,093,218
Bank charges	3,861,046	3,414,477
Consumables	29,456,620	25,774,110
Entertainment	126,766	137,959
Rental: machinery & equipment	6,628,580	3,852,048
Insurance	7,849,272	2,624,643
Ward committees	3,697,000	3,569,000
Magazines, books and periodicals	-	8,525
Fuel and oil	6,292,849	6,106,927
Printing and stationery	228,061	43,140
Protective clothing	706,298	2,979,215
Repairs and maintenance	34,679,196	58,473,227
Subscriptions and membership fees	5,366,110	5,592,973
Communication cost	1,806,900	2,446,777
Transport and freight	5,856,582	8,269,383
Training	937,561	1,127,564
Travel	526,843	3,722,042
Professional fees	3,681,802	14,903,792
Grants expenditure	26,303,470	20,835,459
Other expenses	185,623	749,487
	<b>142,786,930</b>	<b>172,337,506</b>
<b>38. Fair value adjustments</b>		
Investment property (Fair value model)	189,935,811	(3,677,553)
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	(499,986)	(188,159)
	<b>189,435,825</b>	<b>(3,865,712)</b>
<b>39. Auditors' remuneration</b>		
Fees	4,228,084	7,093,218
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	14,229,082	68,110,563
<b>Total capital commitments</b>		
Already contracted for but not provided for	14,229,082	35,402,201
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	14,229,082	35,402,201

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 41. Contingencies

#### Contingent liabilities

The following legal proceedings are currently in progress and are represented by various attorneys:

#### Cronje De Waal & Skhosana

Govan Mbeki Municipality vs Piet Bok Construction CC	9,021,856	9,021,856
Govan Mbeki Municipality vs Bosch	-	25,781,855
Govan Mbeki Municipality vs NICS (Pty) Ltd	56,000,000	46,911,836
Govan Mbeki Municipality vs Moonstone investment 11 (Pty) Ltd	560,000	-

#### TMN Kgomo

Govan Mbeki Municipality vs Ocean Dawn Trading & Projects	293,000	-
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#### Mthimunya Attorneys

Govan Mbeki Municipality vs Kalapeng Constuction CC	-	123,092
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#### Neuhof Khosa Inc

#### S'busiso Simelane Attorneys

Govan Mbeki Municipality vs Mukesh Daya Vallabh	-	49,988
Govan Mbeki Municipality vs Anele Mandisa Maseko	35,766	-

#### Ramathe MJ Inc

Govan Mbeki Municipality vs JE Mabona & Public Protector	1,581,053	1,581,053
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<b>67,491,675</b>	<b>83,469,680</b>
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#### Other

Govan Mbeki Municipality vs Coleman Catharina Talita	750,000	750,000
Govan Mbeki Municipality vs CP Roers obo Snoer	550,000	550,000
Govan Mbeki Municipality vs Joseph Visagie	135,413	135,413
Govan Mbeki Municipality vs Telkom SA LOC LTD	-	8,584
Govan Mbeki Municipality vs Johnston Ronald Graeme Murray	2,250,000	2,250,000
Govan Mbeki Municipality vs Johannes Hermanus van der Westhuizen	107,440	107,440
Govan Mbeki Municipality vs Yvonne Beatrice Deetlefs	300,000	300,000
Govan Mbeki Municipality vs Abdala Mohamoud, T A Halfprice	800,000	800,000
Govan Mbeki Municipality vs Vilakazi SJ	-	20,329
Govan Mbeki Municipality vs Charlie Jacobs & Grace Gabasile Jacobs	1,500,000	1,500,000
Govan Mbeki Municipality vs Siyabonya Roberts Mngomezulu	60,000	60,000
Govan Mbeki Municipality vs Kenneth Gugulakhe Mazibuko	25,564	25,564
Govan Mbeki Municipality vs Hein Van Wyk	99,615	99,615
Govan Mbeki Municipality vs Salem Rahim	-	15,529
Govan Mbeki Municipality vs Ntsumi Telecons	-	2,021,400
Govan Mbeki Municipality vs Ntsumi Telecons	-	7,432,306
Govan Mbeki Municipality vs Nadeem Sohail	286,492	-
Govan Mbeki Municipality vs Retshedistwe Johannes Mapheshoane	10,510,100	-
Govan Mbeki Municipality vs BKM Zone 28 Enterprise (Pty) Ltd	385,151	-
Govan Mbeki Municipality vs Philimon Xaba	195,197	-
Govan Mbeki Municipality vs Alpha Pharm	29,659	-
Govan Mbeki Municipality vs Chris Calitz	51,289	-
Govan Mbeki Municipality vs PJG Nieuwoudt	20,077	-

<b>18,055,997</b>	<b>16,076,180</b>
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#### Total for contingencies for the year

<b>85,547,672</b>	<b>99,545,860</b>
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# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 42. Related parties

#### Relationships

Duduzile Maseko - employee	Director of Lucky Jane trading and projects and is a co-director in Siyaticenga ngani trading CC with Duduzile Maseko.
Ellen Sarah Khumalo - employee	Director of Minoah Suppliers and projects and is a codirector in Tsalanang investments ( Pty)Ltd with Ellen Khumalo(employee)
Sipho Fakude - employee	Director of Singemalangen Logistics cc and projectsand is a co-director in Nkomasefa trading and project cc with Sipho Fakude (employee).
Nontembiso Sqoko - employee	Director of Sondie Trading enterprise and projects and is a co-director inlkhwezi primary co-operative limited Nontembiso Sqoko(employee).
Zakhele Masilela - employee	Director of Clarabarna general trading cc and is a codirector in NkoSix skipas trading and project cc with Zakhele Masilela (employee).
Busiwe Mathebula	Director of Vuma Konke Transport & Project CC is the spouse of Busiwe Mathebula (employee).
Christine Mahlangu	Director of Ndluwakho Construction & Projects is the spouse of Christine Mahlangu (employee).
Izinyosi trading	Directors wife woking at provincial government civilservant
Westvaal holding (Pty)Ltd	Directors wife woking at North West University
Members of key management	Tshabalala EK Mndebele SF Sithole BB Nkhata VB Shilubane KP Maphuthu TJ Gininda TM

The transactions with key management for the year under review was remuneration paid for the position they hold in the municipality , the remuneration is disclosed as part of employee related cost note.

### Related party balances

#### Amount included in trade and other payables

Sondie Trading enterprise	556,579	1,009,605
Clarabarna general trading CC	-	59,270
TMN Kgomo and Associates	-	890,497
Vuma Konke Transport and project CC	4,503,072	9,126,007
Ndluwakho Construction & Projects	-	8,000
Singemalangen Logistics cc	191,360	-
SC Mthinunye Transport	1,815,276	-
Izinyosi trading	1,940,533	-

### Related party transactions

#### Hiring of plant equipment services paid to related parties

Sondie Trading enterprise	1,293,549	1,099,397
Singemalangen Logistics CC	272,320	143,520
Vuma Konke Transport & Projects CC	16,693,825	22,990,616

#### Legal fees paid to related parties

TMN Kgomo and Associates	-	1,189,551
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# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>42. Related parties (continued)</b>		
<b>Other services paid to related parties</b>		
SC Mthinunye Transport	12,611	235,241
Come With Trading and Project	-	103,186
Kutulwa (Pty) Ltd	-	25,000
<b>Consumables purchases from related parties</b>		
Clarabarna general trading CC	422,940	467,460
<b>Repairs and maintenance services</b>		
Izinyosi trading	5,557,432	-
<b>43. Unauthorised expenditure</b>		
Opening balance as previously reported	1,356,493,391	459,430,391
<b>Opening balance as restated</b>	<b>1,356,493,391</b>	<b>459,430,391</b>
Add: Expenditure identified - current	193,879,905	897,063,000
<b>Closing balance</b>	<b>1,550,373,296</b>	<b>1,356,493,391</b>

## 44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligation and commitments will occur in the ordinary course of business.

As a result of the financial status quo of the municipality, the MEC placed the municipality under section 139(a) of the Municipal Finance Management Act, which states that If a municipality, as a result of a crisis in its financial affairs, is in serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments, or admits that it is unable to meet its obligations or financial commitments, the provincial executive must promptly (a) request the **Municipal Financial Recovery Service** to

- determine the reasons for the crisis in its financial affairs
- assess the municipality's financial state
- prepare an appropriate recovery plan for the municipality
- recommend appropriate changes to the municipality's budget and revenue-raising measures that will give effect to the recovery plan.
- submit to the MEC for finance in the province

The municipality developed Financial Recovery Plan and it was then approved. The implementation thereof and progress is monitored on regular basis by Provincial Treasury.

# Govan Mbeki Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 45. Fruitless and wasteful expenditure

Opening balance as previously reported	345,839,425	168,145,510
<b>Opening balance as restated</b>	<b>345,839,425</b>	<b>168,145,510</b>
Add: Expenditure identified - current	202,241,341	177,693,915
<b>Closing balance</b>	<b>548,080,766</b>	<b>345,839,425</b>

### 46. Irregular expenditure

Opening balance as previously reported	658,002,651	406,851,296
<b>Opening balance as restated</b>	<b>658,002,651</b>	<b>406,851,296</b>
Add: Irregular Expenditure - current	216,672,317	251,151,355
<b>Closing balance</b>	<b>874,674,968</b>	<b>658,002,651</b>

Incidents/cases identified in the current year include those listed below:

Contract price exceeded	-	3,603,047
Services received without contracts	51,311,935	46,414,067
Month-to-month contracts	13,567,990	28,697,093
Non-compliance with SCM regulations	151,792,392	172,437,148
	<b>216,672,317</b>	<b>251,151,355</b>



# Govan Mbeki Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>47. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Amount paid - current year	4,228,084	7,100,544
<b>PAYE and UIF</b>		
Current year subscription / fee	85,709,495	71,660,955
<b>Pension and medical aid deductions</b>		
Current year subscription / fee	123,263,606	119,907,768
<b>VAT</b>		
VAT receivable/(payable)	30,275,902	(11,699,308)

VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted throughout the year.

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mtshali PD	4,537	49,758	54,295
Van Huyssteen NC	4,543	18,016	22,559
Zulu TS	1,828	24,826	26,654
Sithole LE	2,297	9,193	11,490
Mokoena BD	5,808	46,208	52,016
Mahlangu NP	4,866	47,047	51,913
Mbokazi AV	2,230	9,052	11,282
Morajane TA	4,961	66,551	71,512
Mabizela TM	1,567	23,593	25,160
Mofokeng TS	3,706	46,382	50,088
Hlolweni S	6,300	24,832	31,132
Mbonani LM	6,274	16,755	23,029
Masinga MM	2,800	40,406	43,206
Mahlangu E	2,946	2,543	5,489
Motloung ME	915	242	1,157
Sebolela JD	7,232	2,757	9,989
Mtsweni TP	858	103	961
Zuma NG	1,151	91	1,242
Dube TH	1,558	10,373	11,931
	<b>66,377</b>	<b>438,728</b>	<b>505,105</b>
<b>30 June 2019</b>	<b>Outstanding less than 90 days R</b>	<b>Outstanding more than 90 days R</b>	<b>Total R</b>
Mahlangu BD	1,332	23,794	25,126
Mafokeng TS	2,431	35,240	37,671

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Mahlangu NP	3,659	30,747	34,406
Mabizela TM	1,177	22,647	23,824
Mahlangu BD	1,176	3,252	4,428
Mtshali PD	1,769	35,280	37,049
Morajana TA	2,575	56,003	58,578
	<b>14,119</b>	<b>206,963</b>	<b>221,082</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the supply chain management policy needs to be approved/condoned by the accounting officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting officer.

#### Incident

Emergencies	17,907,641	17,475,034
Impractical to follow process	-	4,737,348
Sole provider of goods and services	-	294,321
	<b>17,907,641</b>	<b>22,506,703</b>

### 48. Fees earned

Administrative Handling Fees	502,036	566,349
Connection fees - water and electricity	606,025	1,171,935
Advertisements	27,192	35,230
Building plan fees	1,169,789	1,094,736
Cemetery fees	881,617	828,223
Fire services	211,926	239,186
Photocopies fees	28,262	64,124
Informal traders fees	177,158	81,372
Clearance Certificates	6,858	7,212
	<b>3,610,863</b>	<b>4,088,367</b>

### 49. Fines, penalties and forfeits

Building Fines	98,601	51,613
Library book fines	90,387	153,566
Municipal Traffic Fines	2,758,647	9,884,950
	<b>2,947,635</b>	<b>10,090,129</b>

### 50. Interest from non-exchange receivables

Interest - property rates	8,482,483	8,091,643
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### 51. Insurance fund

Claims received	1,275,209	4,203,324
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The municipality has a insurance fund, which is administrated by Kunene Makopo Risk Solutions, an insurance contingency fund administrator. Previously the municipality's insurance fund was administrated by AON South Africa (Pty) Ltd) . Contributions to this insurance fund are made as per the insurance agreement. Claims against the fund are processed as qualifying incidents occur.